Environmental Defense

Comments on the California Climate Action Registry Forestry Protocols
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Submitted by email to: DOCKET@energy.state.ca.us

Docket Unit
California Energy Commission
Docket No. 01-GGE-1
1516 Ninth Street, MS4
Sacramento, CA 95814-5512

Dear Sir or Madam:

Thank you for this opportunity to comment on the Draft Forest Protocol Guidance to the California Climate Action Registry (Registry) [California Energy Commission Docket No. 01-GGE-1].

Although much effort has been put into grappling with the technical issues involved in developing the Forestry Protocol, it is ultimately the policy decisions (regarding intent, desired accuracy, additionality, etc.) that will determine the environmental benefit and other attributes of the whole effort. The credibility of emissions reporting depends heavily on the integrity of baseline development, the accounting for possible leakage, and the assurance of permanence. All of these factors are compromised by when project-based reporting is introduced without requiring entity-wide emissions reporting. In order to promote credible reporting, transparency and clear agency oversight, which are key missing pieces of the Forestry Protocol, are critical.

General Protocol Organizational Issues

There is a lot of redundancy across all four documents, but particularly with respect to the two general categories of documents (those intended for reporting entities and projects, and those intended for certifiers). It would have made a lot of sense to combine the two "reporting protocols" and the two "certifier protocols" and simply indicate where they differ for entity vs. project reporting. Especially given the fact that almost anyone filing a project report will need to also file an entity report; having two different but very similar documents will prove quite confusing for many reporters. The same will apply when it comes time to update and revise the documents.

- *The Registry should consider consolidating the documents into "Reporter" and "Certifier" Protocols for ease of understanding, use, and revision.*

It would also be helpful to have an overarching document that provides key background information and explains key decisions made in the development of the protocols. For example:

  - What is a simple carbon balance for California? Is California in a "sequestration deficit?" Is that deficit (if it exists) significant?
  - What could the kinds of measures covered in the protocols accomplish in California? Is it significant?

- In this context, what are the goals of the protocols? Why should companies report at all? Why should companies report nationally?
- How do these protocols compare to other methodological approaches at the entity and project level? What other methodologies are being developed at the state, national, and international, levels? How are the proposed Registry protocols different from these other protocols, or from what leading companies view as current "best practice" in this field? Are these protocols making a significant contribution?
- What is the intended relationship between "project" and "entity" reporting?
  - Several benefits are cited in the documentation, including leakage avoidance, but it's not clear how "real" these benefits are. It's not at all clear, for example, how well this leakage avoidance objective will be met in practice through the protocol's rules.
  - Also, reviewers have (correctly) pointed out that 1605(b) and other experience suggests that entity reporting can be very useful in providing a context for project-based reporting. However, is that really the objective of the registry?
- How significant are N2O and CH4 emissions in California's forest ecosystems, and what is the tradeoff between including and leaving out these gases?

This kind of an overview would help all readers understand the overall approach being taken, and would better prepare them for the detail found in the protocols themselves. Right now the reader is left to come up with many of these questions in the middle of the protocols themselves, but most the questions aren't even explicitly raised in the current documents.

- *The Registry should include in the protocols or in an accompanying document a framework for the protocols in terms of the role sequestration plays in California's carbon footprint, how these protocols relate a discussion of key decisions and tradeoffs involved in the development of the protocols, and generally how those tradeoffs have been addressed in the protocols.*

The Need for Field Testing

Many questions can be raised about how these protocols will perform in practice. The whole process would benefit from a plan to carry out a systematic investigation and update at a future time specified. Right now the protocols make no reference to such a plan, and in fact suggest that some of the variables (baselines) will be absolutely fixed once set.

- *There are many aspects of these protocols that would benefit from some empirical testing, to see whether the protocols are "getting it right," whether the level of rigor is justified, etc. Right now there seems to be no explicit plan for such a "field testing" of the protocol. It should be built into the process.*

Relative Uncertainties and Appropriate Reporting Accuracy

The protocol's proposed rules are very progressive in their linking of credits to the confidence interval of a given project (p. 31-33). It makes a lot of sense for people to be able to choose a looser confidence interval in exchange for a higher "credit discount." This begins to get at the potential tradeoff between accuracy and transaction costs in a useful way.

What is not clear is why the relationship between the confidence interval and discount factor varies from carbon pool to carbon pool. Again, this might make a lot of sense if it's linked to the marginal cost of improving the confidence interval for the different pools. But if this were the case, making this point more clearly would strengthen the protocol, since it suggests that the process grappled with some of these issues more clearly than is currently indicated.

- *The Registry should illustrate that they have considered how the variety of uncertainties involved in the reporting process is likely to affect the accuracy and precision of the final result, notwithstanding intensely rigorous quantification requirements at certain parts of the process. For example, the uncertainties introduced by baselines, additionality, leakage, and inherent uncertainties, may significantly undercut attempts at achieving small margins of error in other areas, and may throw into question the cost-benefit ratio of such requirements. Right now the Registry makes no reference to its having considered these issues.*

Additionality

In addressing additionality, policymakers are confronted with a tradeoff between "Type I" and "Type II" error. Type I error occurs when one mistakenly accepts a hypothesis that is not true; in mitigation terms, this is equivalent to granting credit for emissions reductions that would have happened anyway (non-additional tons, anyway tons, or business as usual tons). Type II error occurs when one rejects a valid hypothesis; in mitigation terms, this is equivalent to rejecting credit for emissions reductions that really are additional. Neither source of error can ever be fully eliminated; indeed, the more one error is reduced, the more likely the other error is to increase. This means that additionality policy can be thought of as finding the right "balance of errors" in the design of project-level emissions trading system.

There is obviously no technically "right answer" when it comes to additionality. There are appropriate policy approaches to additionality for different policy objectives (and these approaches can differ significantly). In applying a standard, however, I believe it is crucial to understand the practical implications of the approach, and to be confident that the additionality test in question will advance the objectives of the program. In the case of the forestry protocols, it's not clear what the intended objectives really are, although the emphasis on analytical rigor suggests at least superficially that the protocol's authors would favor a relatively strict approach to additionality (where Type 1 error would be minimized, at the expense of higher Type 2 error).

The protocol's additionality standard itself, however, seems relatively loose. For forest management and reforestation projects, the baseline is assumed to involve whatever level of harvesting is allowed by land use regulations (p. 14). Anything that goes beyond legal requirements is per se defined as additional by the project protocol. Yet "best practice" or "typical practice" in many areas goes beyond legal requirements. For conservation projects the baseline is based on trend analysis or specific intervention to avoid imminent forest loss. At least with respect to forest management and reforestation projects, however, the potential for Type 1 error seems relatively high (if the majority of reporting projects would have happened anyway, and are credited under the protocol). If there is a high potential for Type 1 error it may undercut the policy objectives being sought by the legislature, the Registry, and the CEC.

- *It is very difficult to interpret the net effect of the Protocols' approach to additionality, based as it is on assuming that anything beyond legal requirements is additional (at least in several cases). It could be that the majority of reductions reported are in fact not additional, either because of self-selection bias, or by "gaming" the rules. It is crucial that policy makers*

understand whether this is a danger, and what the implications are for the Protocols' credibility. There is no indication that the Registry has addressed this issue.

Another way to look at this is to ask what the seriousness is of potential "self selection bias." In a voluntary system you are inevitably faced with such bias, since participants will tend to be drawn from the pool of potential participants with the most to gain, and the least to lose. But if the only people reporting projects are those who would have done them anyway (e.g. those wanting to pursue forestry easements for other purposes, or those wanting to do reforestation for other purposes, or those seeking to protect forestry stands for other reasons), there is little real additionality to be expected from the program. There is no indication that this question, and the relative likelihood and magnitude of Type 1 error, has been addressed at all in the development of the protocols.

It is also interesting to note that the protocols suggest that if a reporting entity does have any reportable "GHG reductions" from baseline, that it should come up with a project to explain them (in order to be able to claim the reductions as potential credits). In effect, the protocol language is encouraging self selection bias.

It has to be recognized how tricky it is to develop an entity or project baseline going out even 20 years, much less 100 years. The idea of a 100-year entity baseline is somewhat fanciful, and would seem to introduce a huge level of uncertainty into the process. And to the extent that the projected baseline will simply be changed every time the certifiers come in, it's not really clear what the point of the 100-year baseline really is anyway.

Leakage

As with additionality, there is obviously no technically "right answer" when it comes to leakage. Although the subject of leakage has received much less attention over the years than additionality, it is likely that there are appropriate policy approaches to leakage for different policy objectives (and these approaches can differ significantly). In applying a leakage standard, however, it is crucial to understand the practical implications of the approach, and to be confident that the leakage approach in question will advance the objectives of the program. In the case of the forestry protocols, it's not clear what the intended objectives really are, although the emphasis on analytical rigor suggests at least superficially that the protocol's authors would favor a relatively strict approach to handling leakage.

The protocol's leakage standard, however, is purely voluntary and very qualitative. To some extent this reflects the reality that there is no technical answer to the problem of leakage. But to make the leakage process purely voluntary and qualitative in nature could introduce a major source of bottom line uncertainty in calculating the "GHG reductions" associated with entity and project activities under the registry's protocols. This is most obvious in the case of "conservation projects" that mitigate immediate threats of tree loss. Depending on the activity involved, particularly in terms of housing demand, one could envision a leakage factor of close to 100% (absent some kinds of measures to reduce housing demand).

It is very difficult to tell how effective the proposed questionnaires and other measures in the protocols will deal with the possibility of "activity shifting" leakage. It is not difficult to see how these measures might be gamed if the ends justified such an effort by a project developer or entity. To the extent this approach is built into the final protocols, this is a topic that would be very useful to evaluate very carefully after some period of time.

The area of leakage management is an area where these protocols could have pushed the envelope (particularly with regard to market leakage, which the protocols completely ignore for all practical purposes). One possible approach to market leakage is to come up with national or state-wide default leakage factors, based on national or regional modeling that is likely to be much more reliable than the same modeling applied at the project level. The protocols could have taken this approach. There are, however, potentially valid policy rationales for not specifically accounting for market leakage. For policy makers to evaluate what approach best advances legislative and policy objectives, however, requires that these tradeoffs be understood and evaluated.

- *The Registry's approach to leakage has missed an opportunity to seriously tackle this issue during the protocol development process, and has opened up a potentially large hole in the credibility of the reductions that might be registered. It is true that leakage is a vexing problem. But dealing with leakage is ultimately a policy rather than a technical challenge (much like additionality), because there is no technically right answer. So this could have been an opportunity for the registry to really break new ground in how to think about leakage in other policy processes. By basically "punting" on leakage, however, the possibility at least exists that a significant fraction of the reductions registered under the Protocols will not be "real," or will not stand up to future standards. As with additionality, policy makers need to understand the magnitude of this potential problem.*

Permanence

Permanence is perhaps the single most important issue facing the development of forestry-based credit trading systems. The protocols don't actually explicitly address the permanence issue at all. While entity baselines are required to go out 100 years, project developers are able to pick whatever "project length" they want.

In a sense this issue is addressed by the requirement that any project involve lands with "perpetual easements." But a "perpetual easement' on the land is not necessarily equivalent to permanence at the "ton level." To the extent that an objective of the project protocol is to generate tradable reductions, it is probably important for the protocols to at least address this issue.

Public Access to Information

Sufficient information must be made available so that the public can independently assess the validity of reported emission reductions. To present only aggregate information severely degrades the usefulness of reported data. In particular it is important to be able to see the exact characterization of the baseline scenario and the underlying justification, and this element in particular should not be withheld on confidentiality grounds.

Thank you for considering our comments.

Sincerely,

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